

BGR Energy

17 November 2011

Reuters: BGRE.BO; Bloomberg: BGRL IN

Wins 2x300MW EPC Contract Worth Rs17bn

BGR Energy has won an EPC contract for setting up 2x300 MW coal-based thermal power project from TRN Energy, New Delhi. The Rs16.98bn EPC contract is inclusive of boilers and turbine generators (BTG) worth Rs8.4bn and balance of plant (BoP) equipment worth Rs8.58bn. So far in FY12, BGR Energy received order from Nuclear Power Corporation of India worth Rs4.44bn and NTPC bulk tender II 4x800MW turbine generator order worth ~Rs29bn (yet to be awarded, expected in 3QFY12). Total order inflow in FY12E will thereby rise to ~Rs50-51bn, in line with our assumption of Rs50bn. We maintain our order inflow, revenue estimates and EPS guidance for FY12/13 and retain our TP of Rs258 with a Sell rating.

Aggressive pricing stays: As the EPC/BTG orders on the horizon are drying up, the trend of aggressive pricing to win contracts is intensifying. The BTG equipment worth Rs8.4bn, to be procured from China Western Power Industrial Co, is priced aggressively at Rs14mn/MW, 36% lower than Rs22mn/MW price quoted by Bharat Heavy Electricals (BHEL) for similar rating sets. The BoP portion of the order worth Rs8.58bn to be executed by BGR Energy is 28% lower than a similar 2x300 MW Haldia Energy BoP project won by Punj Lloyd for Rs11.95bn in September 2011.

Project highlights: The 2x300MW thermal power project of TRN Energy is located at Nawapara village in Chhattisgarh. The project has already received forest/environmental clearance and land/water allocation. Coal linkage has been tied up with South Eastern Coal Ltd. BGR Energy will execute the first unit in 29 months and the second unit in 32 months. The project value includes foreign currency component of US\$188mn at an exchange rate of Rs44.7 for the BTG to be procured from China. The contract provides for foreign exchange variation protection to BGR Energy.

Outlook: We remain negative on the future prospects of BGR Energy as the BTG industry is heading towards tough times ahead. Lull in order placement expected over FY11-13, over-supply because of increased installed capacity base of domestic industry, Chinese/Korean players penetrating private power companies and mounting pricing pressure leading to price under-cutting will worsen the financial health of BGR Energy. We expect a sharp fall in consolidated RoE/RoCE by 20%/14.5% to 19%/9.5%, respectively, in FY13E, higher D/E ratio of 2.4x in FY13E and negative free cash flow of Rs28.4bn over FY11-13E. We maintain our TP of Rs258, at 8x FY13E EPS of Rs32.3, and reiterate our Sell rating.

Y/E Mar (Rsmn) (Consolidated)	FY09	FY10	FY11	FY12E	FY13E
Net sales	19,303	30,734	47,498	40,142	42,835
EBITDA	2,089	3,442	5,363	5,020	4,952
Net profit	1,154	2,013	3,234	2,579	2,328
EPS (Rs)	16.0	28.0	44.8	35.7	32.3
EPS growth (%)	32.2	74.4	60.3	(20.3)	(9.7)
EBITDA margin (%)	10.8	11.2	11.3	12.5	11.6
PER (x)	17.4	10.0	6.2	7.8	8.6
P/BV (x)	3.6	2.8	2.1	1.8	1.5
EV/EBITDA (x)	10.1	5.6	4.4	7.8	10.5
Dividend yield (%)	1.1	2.5	3.6	2.9	2.9
RoCE (%)	17.0	22.1	24.0	14.0	9.5
RoE (%)	22.2	31.7	39.0	24.6	19.0

Source: Company, Nirmal Bang Institutional Equities Research

SELL

Sector: Capital Goods

CMP: Rs280

Target Price: Rs258

Downside: 8%

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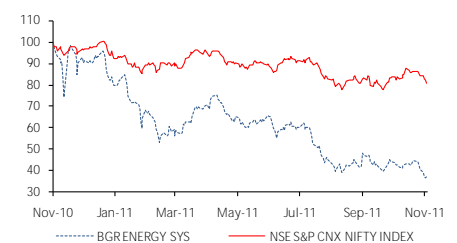
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Key Data

Current Shares O/S (mn)	72.2
Mkt Cap (Rsbm/US\$mn)	20.1/394.7
52 Wk H / L (Rs)	778/267
Daily Vol. (3M NSE Avg.)	709,884

Share holding (%)	4QFY11	1QFY12	2QFY12
Promoter	81.1	81.1	81.1
FII	5.8	6.9	5.6
DII	4.5	3.3	2.7
Corporate	2.0	1.7	1.8
General Public	6.6	7.0	8.7

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
BGR Energy	(15.9)	(42.9)	(62.8)
Nifty Index	(3.5)	(9.2)	(17.5)

Source: Bloomberg

Rating track

Date	Rating	CMP (Rs)	Target price (Rs)
5 September 2011	Hold	321	330
16 September 2011	Hold	367	376
16 November 2011	Sell	281	258
17 November 2011	Sell	279	258

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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